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January 11, 2007

TO: Each Supervisor 
FROM: Bruce A. Chernof, M.D.
Director and Chief Medical Officer
SUBJECT: **METROCARE HOSPITAL AND PHYSICIAN
CONTRACTS**

On November 28, 2006, your Board authorized the execution of various agreements related to the implementation of MetroCare. Pursuant to this authority, the Department of Health Services (DHS) negotiated, and the Chair of the Board executed, agreements with St. Francis and St. Vincent Medical Centers for the provision of inpatient beds, and authorized the establishment of the MetroCare physician services for the indigent reimbursement program.

The physician reimbursement program provides that the physicians of the two Medical Centers receive 100% of Medicare reimbursement, not to exceed billed charges under the Medicare Area 18 fee schedule. This Medicare fee schedule was selected as the model for the reimbursement payment structure. However, this provision does not allow for the physicians to actually receive the maximum amount as set forth in the fee schedule. That is because under the Medicare program physicians are entitled to receive the 20 percent of that fee schedule amount as a co-payment from the patient. In this case, physicians under the MetroCare reimbursement program may not bill the indigent patient.

After services had commenced, the parties, DHS and the two Medical Centers, determined that the payment to the physicians should be adjusted to permit the physicians at St. Francis and St. Vincent Medical Centers' to be reimbursed for the patient co-payment portion as well. The two Medical Centers have agreed to reduce the reimbursement they receive under the agreements for the hospital component, to fully offset this adjustment to the physician reimbursement.

DHS also negotiated, pursuant to the delegated authority approved by your Board, and the Chair of the Board executed, an agreement with Primary Critical Care Medical Group (PCCMG) for the provision of Hospitalist and Intensivist Physician Services. At the time the contract was executed, it was anticipated by both parties that the Contractor would bill third party resources for the physician component of its services for those patients with Medicare or private insurance.

The Department and the Contractor have since determined that this arrangement is not feasible, thus the agreement must be amended to provide that the County will pay the Contractor directly for the physician component for all patients, both the indigent and those with third party resources. The County will bill the third party resources pursuant to its established procedures. In order to make these direct payments to the Contractor for the physician component, the contract sum must be augmented by \$1,500,000, which will be offset as explained in the Fiscal Impact section.

Fiscal Impact

In amending the agreements for inpatient beds to allow the physicians to receive reimbursement for the co-payment customarily paid by the patient, the Medical Centers have agreed to a reduction in their rates for the hospital component of the services to fully offset the increase in physician reimbursement.

The rates paid to the Medical Centers are confidential pursuant to Health and Safety Code section 1457 and are kept on file with the Department. As set forth in the November 28, 2006 letter, the maximum obligation for the inpatient bed contracts will remain the same, \$85,000,000 annually.

The amendment to the Hospitalist and Intensivist Physician Services contract will require increasing the maximum contract sum by \$1,500,000, for a revised maximum obligation of \$4,500,000. These costs will be funded out of existing resources and the Department anticipates that its billings for the services will offset the increased cost.

Contracting Process

Because of the time constraints involved in putting these services in place before the target Metrolcare implementation date of December 1, 2006, a formal solicitation was not feasible. Instead, the Department chose to release Requests for Information ("RFIs") to gauge interest and to fill the immediate need. The RFIs set forth specific expectations for the contractors based on the immediate need to enter into initial contracts by December 1, 2006.

Through the RFI process, the Department was able to select PCCMG to provide Hospitalist and Intensivist Physician Services. The Department also was able to identify St. Francis and St. Vincent Medical Centers as facilities which were willing and able to enter into inpatient bed contracts on short notice to assure bed availability on December 1, 2006.

Since the execution of the contracts with St. Francis and St. Vincent, the Department has been focusing on identifying other facilities to provide additional inpatient beds to assure adequate and continuous coverage. Contracts with these additional facilities will be executed pursuant to the authority previously delegated by your Board.

In identifying these additional facilities, the Department may go beyond the initial respondents and the specific requirements of the RFI. For example, the Department no longer believes it is necessary to require each facility to have an emergency room or be able to guarantee the 10 beds set forth in the RFI, and so it will waive or modify these requirements for future contracts.

As directed by your Board, the Department will be providing an initial report to your Board as to the specific terms of each agreement and quarterly reports on the status of each agreement, including the usage of and the amount expended pursuant to each agreement.

With regard to the necessary changes to the existing agreements, I intend, at the January 16, 2007, Board meeting, under Item A3 ("Consideration of the Director of Health Services' report and/or recommendation regarding any activities of changes related to the implementation of the MetroCare Plan and the Martin Luther King-Harbor Hospital"), to seek your Board's approval for:

1. Delegated authority to negotiate and execute an amendment to the contracts with St. Francis and St. Vincent Medical Centers for the purchase of inpatient hospital beds, and make necessary changes to the Metrocare Physician Reimbursement Program Policies and Billing Procedures to adjust the rate structure to allow physicians to receive reimbursement at 100 percent of the allowable Medicare Area 18 fee schedule and reduce the reimbursement for the hospital component correspondingly, effective December 1, 2006.
2. Delegated authority to negotiate and for the Chair of the Board, without further action of the Board, to execute an amendment to the contract with Primary Critical Care Medical Group ("PCCMG") for the provision of Hospitalist and Intensivist Physician Services to increase the maximum obligation from \$3,000,000 to \$4,500,000 to reflect that the County, rather than the Contractor, will bill third party resources for the physician services, effective December 1, 2006.

Please let me know if you have any questions.

BAC:fl

c: Chief Administrative Officer
County Counsel
Executive Officer, Board of Supervisors